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INGR.N - Q3 2020 Ingredion Inc Earnings Call

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OVERVIEW:

Co. reported 3Q20 net sales of $1.574b, reported operating income of $153m and reported EPS of $1.36.

CORPORATE PARTICIPANTS

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Third Quarter 2020 Ingredion Inc. Earnings Conference Call. (Operator Instructions) Please be advised that today's conference may be recorded.

I'd now like to hand the conference over to your host today, Ms. Tiffany Willis, Vice President, Investor Relations and Corporate Communications Officer. Please go ahead.

Tiffany Willis - *Ingredion Incorporated - VP of IR & Corporate Communications Officer*

Thank you, Liz. Good morning, everyone, and welcome to Ingredion's Third Quarter 2020 Earnings Call. I'm Tiffany Willis, Vice President of Investor Relations and Corporate Communications Officer. On today's call are Jim Zallie, our President and CEO; and Jim Gray, our Executive Vice President and Chief Financial Officer.

We issued our results yesterday in a press release that can be found on our website, ingredion.com, in the Investors section. The slides accompanying this presentation can also be found on the website and were posted yesterday for your convenience.

As a reminder, our comments within this presentation may contain forward-looking statements. These statements are subject to various risks and uncertainties. These statements include expectations and assumptions regarding the company's future operations and financial performance, including the impact of the COVID-19 pandemic. Actual results could differ materially from those predicted in the forward-looking statements, and Ingredion assumes no obligation to update them in the future as or if circumstances change. Additional information concerning factors that could cause actual results to differ materially from those discussed during today's conference call or in yesterday's presentation -- press release can be found in the company's most recently filed annual report on Form 10-K and subsequent reports on Form 10-Q and 8-K.

During this call, we also refer to certain non-GAAP financial measures, including adjusted earnings per share, adjusted operating income and adjusted effective tax rate, which are reconciled to U.S. GAAP measures in Note 2 non-GAAP information included in our press release and in today's presentation appendix.

Now I am pleased to turn the call over to Jim Zallie.

James P. Zallie - *Ingredion Incorporated - President, CEO & Director*

Thank you, Tiffany, and good morning, everyone. As societies around the world enter new phases of the pandemic and continue to grapple with its impact, we, at Ingredion, remain guided by our values and 3 priorities that we established at the beginning of the crisis. As part of our Care First value, our employees' safety, health and overall wellness remains our top priority. We've taken measures and applied learnings throughout the year to keep our employees safe. And as a result, I'm pleased to say that to date, we've had no Covid case-related interruptions to any of our operations around the world.

We have also been supporting our employees' needs to balance their personal and professional obligations, which has allowed us to productively progress both our operational and strategic agendas.

Our second priority has been to support the communities in which we operate. And I'm proud to say that our employees have really leaned in. Consistent with our value of Everyone Belongs, our employees around the world have shown tremendous support for racial justice as we've elevated our commitment to diversity, equity and inclusion. As a company, we have enhanced our internal programs, clarified what we expect from our leaders and supported social justice causes with both community involvement and financial contributions. As an integral part of the food supply chain, we're also working to do our part to address the growing problem of food insecurity in the communities in which we operate. And again, I'm proud of our company's and employees' efforts to give back through charitable donations and volunteerism. All of this is in alignment with our purpose to Make Life Better.

Lastly, we've maintained an intense focus on business continuity on behalf of our customers, which has served them, and in turn served us well. We're aligning our supply chain operations with our customers' efforts to optimize brands, product lines and SKUsand this has allowed us to get even closer to them during periods of swings in consumer demand. We understand the critical role we play in the food supply chain for our customers, and we strive to deliver on their behalf with each shipment we make. One example we'd like to highlight during the quarter is from our customer, Mondelez, who was recognized for its sustainable supply chain. We are proud to be a trusted, sustainable supplier who played an important role in enabling their success. We have also quickly pivoted to accommodate our changing customers' innovation needs by leveraging digital capabilities to collaborate and co-create in real time. This has afforded us the ability to quickly and economically deliver on new concept and reformulation requests. As shown by our work for Cheddies, a low-sugar, all-natural cheddar cracker, where we helped improve their margins by leveraging our technical expertise on reformulation.

Now turning our attention to the third quarter, we were pleased with our operational execution and financial results in the face of a challenging global environment. For the quarter, our global net sales were down 5% compared to the year ago period. Absent foreign exchange impacts of $38 million dollars, net sales were down 2% versus prior year. Quarter 3 results were sequentially better than the second quarter's 13% year-over-year decline in net sales. Adjusted operating income for the quarter was down 7% year-over-year and down 4% absent foreign exchange translation impacts.

James D. Gray - *Ingredion Incorporated - Executive VP & CFO*

Jim, let me just pardon you, I think we just need to try and dial back in because the polycom is breaking up. Sorry, just one minute we'll pause.

James P. Zallie - *Ingredion Incorporated - President, CEO & Director*

Okay. We're going to get started again. We had a little technical difficulty. So I'm starting with Slide 7, and I'm going to start with the third quarter. So turning our attention to the third quarter, we were pleased with our operational execution and financial results in the face of a challenging global environment. For the quarter, our global net sales were down 5% compared to the year ago period. Absent foreign exchange impacts of $38 million, net sales were down 2% versus prior year. Quarter 3 results were sequentially better than the second quarter's 13% year-over-year decline in net sales. Adjusted operating income for the quarter was down 7% year-over-year and down 4% absent foreign exchange translation impacts versus the second quarter's 29% decline in operating income, quarter 3's results demonstrated improved volume demand and better fixed cost absorption.

Moving to our third quarter regional results. Let me begin with South America. South America sales were down 9% versus prior year. However, absent foreign exchange, sales were up 7% as favorable price/mix more than offset a modest volume decline. Operating income was $29 million, up 7% versus prior year as favorable price/mix more than offset foreign exchange impacts. Excluding foreign exchange impacts, adjusted operating income was up 30%, driven by strong price/mix.

To further highlight South America, we have seen a sequential improvement in volume demand. Consumer activity is returning to informal channels, albeit not to 2019 levels. We have seen a strong recovery in sales for brewing ingredients and steadily improving sweetener sales. In addition, the team has managed pricing actions very well given changing customer demand patterns as well as fluctuations in costs and foreign exchange.

Shifting to EMEA, our sales were up 2% for the quarter. The increase was largely attributable to favorable volume and price/mix in Pakistan. Operating income was $25 million, up 4% for the quarter. The increase was driven by favorable price/mix and volume in Pakistan and lower operating expenses in Europe.

Moving to Asia Pacific, net sales were up 1% compared to prior year, which includes the addition of PureCircle. Removing PureCircle, Asia Pacific net sales were down 3%, which reflects the pass-through of lower tapioca costs to customers. Operating income was $18 million, down 18% versus prior year, which includes a $5 million operating loss for PureCircle. Excluding PureCircle, third quarter operating income was $23 million, up $1 million from the year ago period, driven by lower input costs and favorable operating expenses.

Transitioning to North America. Net sales were down 6% for the quarter versus prior year. Volume demand continued to be weaker than prior year, although it improved versus the second quarter, as away-from-home consumption increased quarter-on-quarter. Operating income was $132 million, down 9% versus the prior year. The decrease was driven by unfavorable customer price/mix, lower sweetener volume and unfavorable fixed cost absorption in the U.S. and Canada.

Returning to a view that we shared in our last earnings call, we wanted to highlight the pace of recovery of net sales in both U.S., Canada and Mexico. In U.S., Canada, net sales were down mid-single digits for the quarter with sweetener syrup volumes improving from the second quarter, although still down high single digits versus prior year. In Mexico, net sales were down high single digits for the quarter, demonstrating a significant improvement from the quarter's steep decline due to a government shutdown of the brewing industry. In the third quarter, sales of brewing ingredients recovered significantly.

Now let me turn it over to Jim Gray, who will round out the financial review.

James D. Gray - *Ingredion Incorporated - Executive VP & CFO*

Thank you, Jim. Net sales of $1.574 billion were down 5% for the quarter versus prior year. Gross profit margin was 21.7%, down 15 basis points. Reported and adjusted operating incomes were $153 million and [$179 million] (corrected by company after the call), respectively. Reported operating income was lower than adjusted operating income due to asset closures and restructuring costs related to Cost Smart, acquisition and integration costs related to PureCircle and the impact of the severe derecho weather was swept through Iowa in the month of August.

Our reported and adjusted earnings per share were $1.36 and $1.77, respectively. Third quarter net sales of $1.574 billion were down 5% versus prior year. We experienced negative foreign exchange impacts of $38 million. Sales volume decline of $28 million was driven primarily by COVID-19 impacts around the world on volume demand. Unfavorable price/mix had a small impact of $6 million largely due to lower raw material costs in some geographies and related price-through to customers.

In North America, net sales were down 6% versus prior year due to sales volume decline of 3% and price/mix decline of 3%, driven primarily by the pass-through of lower corn costs to customers with variable pricing contracts. South America net sales were down 9%, driven by a negative 16% impact from foreign exchange weakness. 3% sales volume decline was more than offset by strong price/mix delivering 10 percentage points of favorability.

In Asia Pacific, net sales were up 1%, driven by the inclusion of PureCircle. Excluding PureCircle, net sales were down 3%, driven by the pass-through of lower tapioca costs in Thailand to our customers. EMEA net sales were up 2%, driven by higher volume and favorable price/mix in Pakistan, which offset foreign exchange impacts. For the quarter, reported operating income decreased $12 million, while adjusted operating income decreased $14 million. The decrease in reported operating income versus adjusted operating income is primarily due to asset closures and restructuring costs related to Cost Smart, acquisition and integration costs and the impact of the derecho weather event impacting Cedar Rapids, Iowa in August.

Operating income was down in North America and was up in both South America and EMEA. While Asia Pacific's operating income is down, please recognize that this includes a $5 million operating loss for PureCircle. While flat year-over-year for the quarter, corporate costs include continued investments to drive business and digital transformation, partially offset by less travel expense.

In addition, our company incurred incremental expenses due to COVID-19 for compensation, personal protective equipment, sanitation and health screens. This direct expense amounted to $2 million during the quarter with the majority occurred in North America.

Turning to our earnings bridge. On the left side of the page, you can see the reconciliation from reported to adjusted. On the right side, operationally, we saw a decrease of $0.15 per share for the quarter, driven primarily by margin decline of $0.07. Unfavorable foreign exchange was a negative $0.07 impact to the quarter.

Moving to our nonoperational items. We saw an increase of $0.06 per share for the quarter driven by lower financing costs attributable to lower net interest expense due to lower interest rates. Tax rate was unfavorable, driven by lower U.S. foreign tax credits, geographic earnings mix and other onetime adjustments. Year-to-date net sales of $4.394 billion were down 6% versus the year ago period. Gross margin was 20.9%, down 29 basis points. Reported and adjusted operating incomes were $419 million and $473 million, respectively. Reported operating income was lower than adjusted operating income due to asset closures and restructuring costs related to Cost Smart and acquisition and integration costs. Our reported and adjusted earnings per share were $3.45 and $4.50, respectively. Year-to-date net sales of $4.394 billion were down $266 million from the same period a year ago. Foreign exchange impacts represented a $138 million headwind. Sales volume decline of $206 million, of which $178 million occurred in the second quarter. The sales volume decline was partially offset by $78 million of favorable price/mix.

Turning to our year-to-date earnings bridge. Operationally, we saw a decrease of $0.69 per share, driven by a volume decline of $0.41. Unfavorable foreign exchange, margin and other income items represented a negative $0.20, $0.05 and $0.03 decline per share, respectively.

Moving to our nonoperational items. We saw an increase of $0.12 per share year-to-date, driven by lower financing costs and other nonoperating income items.

Moving to cash flow. Year-to-date cash provided by operations was $562 million. Capital expenditures were $250 million, up $19 million from the year -- from the prior year period due to the timing of payments for our growth projects. At quarter end, we had cash and cash equivalents of $553 million. During the quarter, we used cash towards the acquisition of PureCircle and the redemption of our November 2020 senior notes.

Due to the uncertainty of COVID-19, we cannot reasonably estimate results at this time. During the fourth quarter, we expect continued adverse impacts from COVID-19 on net sales across our operating segments with recovery in sales generally correlated with easing of restrictions and increased consumer activity out-of-home.

For the fourth quarter, we expect adjusted operating income to be down mid-single digits versus prior year, with the greatest range of potential outcomes in North America and South America. We anticipate cash flow in line with changes to operating income and supported by tight management of working capital. For the year, committed capital investments are anticipated to be between $290 million to $310 million. Our reported annual effective tax rate is anticipated to be between 32% and 36%. And our adjusted annual effective tax rate is expected to be between 27% and 28%.

For North America, we are assuming slow resumption of consumer activity in both the U.S. and Mexico and are watchful of potential COVID resurgence, which could lead to greater restrictions and new stay-at-home orders. We anticipate North America net sales to be down slightly and op income to be flat to slightly up versus prior year as the business overlaps unfavorable corn costs.

In Q4, we anticipate South America's operating income to be modestly down versus the prior year. We expect continuing impacts of COVID on demand for our ingredients in the Andean region. And potentially unfavorable impacts due to Argentina currency weakness. We anticipate that EMEA operating income will be down mid-single digits to high-single digits, driven by higher expected corn costs in Pakistan. The effects of a hard exit of Britain from the EU trading bloc and very recent country stay-at-home restrictions are additional uncertainties potentially impacting volume demand. Including PureCircle results, we anticipate Asia Pacific to be down mid-teens versus the prior year. And viewed without the addition of PureCircle, we expect Asia Pacific op income to be mid -- to be up mid- to high single digits. We expect PureCircle operating losses to be between $4 million and $6 million as the business progresses the integration, works to reduce cost of goods sold and continues to broaden and strengthen its customer relationships.

Now let me turn the call back to Jim Zallie.

James P. Zallie - *Ingredion Incorporated - President, CEO & Director*

Thanks, Jim. Our driving growth road map continues to provide the direction for the execution of our strategy and value creation. We continue to make meaningful progress against each one of our specialty growth platforms as we diversify and expand our ingredient portfolio, in line with the most significant trends shaping consumer buying behavior. Our PureCircle integration has progressed significantly since we closed on the acquisition in July, and we are on track to substantially complete the integration before year-end. Leveraging the Ingredion go-to-market network, we have begun strengthening the customer pipeline for sugar reduction projects and are executing on new customer contracts. We are excited by the talent we have acquired in PureCircle, and the Ingredion and PureCircle teams are sharing the same passion for customers and innovation, which is leading to new ideas to drive stevia growth. We previously shared that we expect to achieve both cost synergies of greater than 10% and additional revenue synergies starting in the second half of this year. To date, we are pleased to say that we have begun to deliver upon $11 million of annual cost synergies. This tangible achievement in the first 3 months of ownership is a testament to the cross-functional integration team we put in place on day 1.

Also in the quarter, we continue to make excellent progress in building out the capabilities for our plant-based proteins growth platform. The South Sioux City pea protein isolate facility continued its commissioning start-up as we work to obtain food-grade certification, which is required for any new food-grade manufacturing operation. We hosted members of our Board at the South Sioux City manufacturing facility for a ribbon-cutting ceremony in mid-September, and we expect to be sampling customers towards the end of the year and fulfilling orders in the first half of 2021.

As you saw earlier today, we are increasing our investment in Verdient Foods to have 100% ownership in the fourth quarter. The opportunity to acquire 100% of Verdient Foods will enable us to accelerate net sales growth, further expand our manufacturing capacity and enhance our supply network for protein flowers and concentrates for plant-based foods. The Verdient acquisition will bring our cumulative investment in plant-based proteins to greater than $200 million and provide a complete formulating portfolio for nutritional and texturizing ingredients and solutions for plant-based consumer food and animal and pet nutrition.

Before closing, I would like to update you on the work we're doing to transform the company, not only as part of our Cost Smart savings program, but also in response to the opportunities and necessities created by the pandemic. We continue to advance Cost Smart to improve profitability and invest in future capabilities. From the launch of Cost Smart in 2018, our global team has engaged in over 90 initiatives to reshape and restructure our organization. By way of example, the pandemic has not held us back from expanding our shared service platform globally to include Asia Pacific and Europe. We expect to open our Asia Pacific center in the beginning of 2021.

Our team is exemplifying our value of an owner's mindset and demonstrating creativity in how we rethink work. In the quarter, we stood up an office of transformation that is led by a highly skilled specialist we brought into the company who has experienced leading transformations at large multinationals. The scope of this work is broad, yet focused on organizational design, work policies and practices and digital transformation, all to maximize productivity while building resiliency. We look forward to updating you in the future on the results of this work.

That concludes my comments, and now let's open the call for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Ben Bienvenu with Stephens.

Benjamin Shelton Bienvenu - *Stephens Inc., Research Division - MD*

I want to ask -- good to see the volumes recover in the third quarter. I'm curious we've already seen the impact of a COVID spike earlier in the year. I'm curious to what extent, given that we're seeing escalating cases in various geographies today. How do you think the business is positioned in the event that we see worsening COVID backdrop in the fourth quarter relative to how it performed in the first quarter? And kind of what actions can you put in place based on your learning that might mitigate some of the risks associated with that?

James P. Zallie - *Ingredion Incorporated - President, CEO & Director*

Jim, do you want to take that?

James D. Gray - *Ingredion Incorporated - Executive VP & CFO*

Yes, sure. Ben, one of the things that we learned, I think, with broad and severe shutdowns is how much it constrains the supply chain of channels where consumers go for food and beverage choices, primarily in food service or if you look to the U.K. and kind of food takeaway. And as we saw our customers, whether they're kind of direct manufacturers or distributors, everybody was adjusting their supply chains to that kind of supply chain constriction.

Looking forward to the Fourth Quarter, we do not expect food supply chains to shut down broadly whether there's resurgence in particular cities or in particular countries. What we're really watching for is how consumers have adapted to whether it's curbside pickup or ordering food from away-from-home occasions. And I think the adaptation has probably moved beyond maybe the April and May shutdown that we experienced in the United States. We will still see -- as a caution, I think we will still see where certain governments may take more severe actions with stay-at-home restrictions and broad testing and that can last for 2-week periods and speaking, I think, primarily to Asia Pacific. So what we're doing is we're keeping our inventories ready and we may carry some inventory as we finish out the year. But we're really just trying to stay closer to our customer supply chains and understand where they're at with regard to their demand.

James P. Zallie - *Ingredion Incorporated - President, CEO & Director*

Yes. And I would say, just picking up on what Jim said, is that we've learned a lot through the last 6 to 8 months in relationship to how our customers are looking at their supply chains. They've learned a lot. We've learned a lot. And we're very close to them in relationship to how they're looking to forecast for their brands. In many cases, as they have looked to rationalize and prune their product lines and SKUs and support some of their bigger brands, we equally have done the same cascading back to our supply chains. So we're applying all those learnings to make sure that we have the right products at the right level of inventory and taking some forward-looking bets based on some of the products that go into retail for stock ups that we're seeing in -- going into the winter months and into the fall and winter months, both in North America as well as in EMEA.

Benjamin Shelton Bienvenu - *Stephens Inc., Research Division - MD*

Okay. Great. My second question is also related to COVID, but is more from a long-term perspective. We heard from you at CAGNY earlier this year about your outlook longer-term for the growth of your specialty ingredients business. The world has changed a bit, but still is in flux. I don't think it's lessened the importance on the growth of that business either to your customers or to your businesses. But I'm curious, how has COVID, do you think, impacted the pace of magnitude of growth in the specialty ingredients business, if at all?

James P. Zallie - *Ingredion Incorporated - President, CEO & Director*

So our global specialty ingredients have performed well this year in the face of the challenges due to the COVID pandemic. Year-to-date, our sales are up slightly on a constant currency basis, and we're performing well with larger customers. We expect specialty ingredients will grow to over 32% of our total net sales for the year. And we expect to return to historical specialty [growth] (added by company after the call) rates when COVID-19 restrictions ease and away-from-home approaches the pre-pandemic levels. We believe that everyone of our 5 global growth platforms remain as relevant today as they did pre-pandemic. When you think about starch-based texturizers for affordable formulating into a variety of retail and big branded based products, when you think about simple ingredients and the trend towards simpler and cleaner labels, sugar reduction in relationship to one of the comorbidities around obesity or plant-based proteins and formulating more complete food systems to support customers' needs to have more integrated solutions, given how labor costs and the workplace have increased and just simpler, faster ability to streamline their manufacturing and supply chain. So we think every one of those specialty growth platforms are as relevant today as they were prior to. And to date, through the pandemic, we're pleased to be actually up in our sales in constant currency terms.

Operator

Our next question comes from Ken Zaslow with Bank of Montreal.

Kenneth Bryan Zaslow - *BMO Capital Markets Equity Research - MD of Food & Agribusiness Research and Food & Beverage Analyst*

So just a question on North America. There's a lot of things going on in North America between your strategy for ingredients, but then you have the potential for Mexican labeling and somewhat the lower fructose corn syrup demand and stuff like that. So when you think about the North America, what do you think of the path of recovery? Do you think 2021, 2022 is growth years? Are you looking to hold profitability? How do we frame that? And not just for this year, just how do we frame it a little bit longer term given all the pushes and pulls?

James P. Zallie - *Ingredion Incorporated - President, CEO & Director*

Yes. Let me start, and then I'll turn it over to Jim. I think that one of the keys to North America's recovery is going to be the pace of food consumed away from home. So foodservice overall consumption, which, obviously, both in Mexico and in U.S., Canada got hit very hard, and that recovery is going to be linked with the recovery of the economies related to reduced cases and COVID-19 impacts abating. So that's, to me, the biggest key to the path to recovery. And at the same time, what we're doing is we're obviously investing in the larger customers that are doing the best right now through the pandemic and are looking to innovate with them as it relates to the micro trends and pockets of growth, we call it, that are emerging through the pandemic, and that will be to heavily continue to invest in our specialties -- to leverage our specialties investments that we have made, where we have made significant investments that we're expecting starting next year to provide an additional boost to our North America sales in the form of plant-based proteins, for example, as well as sugar reduction popularity is very significant, both in U.S., Canada as well as in Mexico. You talked about the labeling in Mexico. We're watching that obviously very closely that began October 1st for all packaged and processed foods. And regardless of that change, we do know that there's interest in health and wellness and there's going to be a lot of reformulation opportunities, and that will provide opportunities for reduced calorie, reduced sugar, and we have products like allulose and stevia in Mexico that will perform well. We are encouraged also by what we've seen in regards to the bounce back in certainly the brewing segment in Mexico.

Jim, do you want to add to that?

James D. Gray - *Ingredion Incorporated - Executive VP & CFO*

Ken, the one thing I'd add is that if you look at North America segment op income, and you take what we've done year-to-date, down about $50 million, and you look at our outlook for Q4, largely, that decrease, 3/4 of that decrease has really been driven by volume demand. And I'd say there's another portion of that, which is higher fixed cost absorption given that volume demand has been down. As we look forward to the factors that Jim highlighted in Mexico, as well as in U.S., Canada, we'll see as we get through winter and hopefully as vaccination programs start and begin in the first half of the year, we'll see volume demand return both from our medium and small customers who, participate in retail, as well as probably more broadly from other parts of our customer set that serve foodservice and [provide] (corrected by company after the call) ingredients into away-from-home uses. When we look at that, we really think it's about that volume recovering and the pace of that through 2021, probably more into kind of a full recovery by 2022.

Kenneth Bryan Zaslow - *BMO Capital Markets Equity Research - MD of Food & Agribusiness Research and Food & Beverage Analyst*

Perfect. Thank you very much.

Operator

Our next question comes from Robert Moskow with Crédit Suisse.

Robert Bain Moskow - *Crédit Suisse AG, Research Division - Research Analyst*

I was surprised to see mix down in North America in third quarter. I think that's a change from the first half of the year. So if specialty sales are doing well, Jim and Jim, why would mix be down?

James P. Zallie - *Ingredion Incorporated - President, CEO & Director*

Jim, I'm going to let you take that one.

James D. Gray - *Ingredion Incorporated - Executive VP & CFO*

Rob, one of the -- as we've highlighted in the past, in primarily our U.S. Canada, business, but also some in our Mexico business, we have variable pricing on contracts. And as we saw the prices of corn drop through -- really through Q2 and they kind of hit a low, really, it's just the repricing of those contracts, given where the monthly corn costs for those customers is.

Robert Bain Moskow - *Crédit Suisse AG, Research Division - Research Analyst*

And that impacts the mix, not the price?

James D. Gray - *Ingredion Incorporated - Executive VP & CFO*

That impact -- well, also, what you saw was that your larger customers were also pulling, I think, a higher proportion of our volume. So that's the mix portion of that. As we would expect higher ingredients demand to come from branded retail customers or customers that serve food products into grocery retail, et cetera, I think that their supply chains were acting very swiftly to get product back on to shelf. They were pulling a higher proportion of our ingredients. And as larger customers, they tend to have better pricing.

Robert Bain Moskow - *Crédit Suisse AG, Research Division - Research Analyst*

So you had -- you're kind of cutting in and out, but you said big retail customers had a lot of -- had stronger volume, but those customers...

James P. Zallie - *Ingredion Incorporated - President, CEO & Director*

Yes, it was basically -- basically, Ken, it was a larger proportion of sales to larger customers that have better pricing.

Robert Bain Moskow - *Crédit Suisse AG, Research Division - Research Analyst*

Okay. Okay. Will that continue into fourth quarter or is that just kind of a transitory inventory thing?

James D. Gray - *Ingredion Incorporated - Executive VP & CFO*

I think it may continue into quarter 4. And again, a lot depends on the mix of the customer base in quarter 4 vis-à-vis quarter 3.

Robert Bain Moskow - *Crédit Suisse AG, Research Division - Research Analyst*

Okay. And then last question is, can you talk a little bit about the pricing environment for sweeteners going forward? I imagine everything is getting pushed back, but what do you -- how do you see that shifting up in North America?

James P. Zallie - *Ingredion Incorporated - President, CEO & Director*

Yes. Rob, I would say that prices for the 2021 crop year for corn have increased approximately 15% since early August and are above prices for the 2019, 2020 crop at the same time last year. And obviously, that's being driven by increased import demand from China for commodities. And looking forward, we expect higher corn prices and therefore, industry logic would typically translate into elevated pricing to customers. That said, there is more corn wet milling capacity available in the short term due to the pandemic, which may temper price increases. That's really the best outlook I can give you right now. It's too early to comment on 2021 pricing outlook. But those are the 2 key variables that will be taken into account by the industry.

Robert Bain Moskow - *Crédit Suisse AG, Research Division - Research Analyst*

Okay. One more question. In terms of your investment into digital, does that include vendors' earnings calls or is that separate?

James P. Zallie - *Ingredion Incorporated - President, CEO & Director*

I think he was making a joke. And the answer is, yes, it will certainly, Rob, of course.

Robert Bain Moskow - *Crédit Suisse AG, Research Division - Research Analyst*

Yes, thank you.

Operator

(Operator Instructions) Our next question comes from Adam Samuelson with Goldman Sachs.

Adam L. Samuelson - *Goldman Sachs Group, Inc., Research Division - Equity Analyst*

I was hoping to continue on maybe just on the specialty side a little bit and with the increased investments on the plant side, you've got the [allulose facility] in Mexico ramping up. I'm just trying to make an understanding of what sort of reasonable expectation on contribution from some of those growth investments next year on a year-on-year basis? I'm just trying to think about balancing kind of the cyclical dynamics in the base business and some of the comments on contracting that you just made with some of the internal investments that you have underway and how much we can reasonably expect those to be kind of company-specific growth drivers.

James D. Gray - *Ingredion Incorporated - Executive VP & CFO*

Yes, sure, Adam, this is Jim Gray. As we've said, when we invest in new facilities where we bring on substantial capacity, we usually plan over kind of a 3- to 5-year horizon for the ramp-up of volume through that facility. So usually, in the first year, while we are having samples out and we're working the customer pipeline and we're shipping those initial orders, our expectations are volume and revenue tend to be at 1/5 to 1/4 of the capacity and we are having cost impacts necessarily in the first year as we're running the facility but ramping up in that volume. So I think we're just on this path, we understand the path for both our allulose expansion at our San Juan del Rio facility, but also our at South Sioux City, Nebraska plant for 2020. Those are continuing on a path of ramp-up in the early years.

James P. Zallie - *Ingredion Incorporated - President, CEO & Director*

Yes. And I would just build on that in relationship to, say, PureCircle, in the near term, our expectation is the net sales are going to grow high single digits next year and the synergies are going to deliver greater than 10% savings. And so we're very optimistic and bullish based on what we've been able to do in the first 4 months -- after 15 months of PureCircle really being challenged, in the last 4 months with customers as well as internally with our optimization program. And on plant-based proteins with regard to the South Sioux City, we expect net sales growth to commence in 2021, the return on that investment is really going to be dependent upon the rate of customer adoption and market growth. And so -- and that is looking very favorable right now. So we feel that, that investment is perfectly timed with the growth in the marketplace for plant-based proteins right now.

Adam L. Samuelson - *Goldman Sachs Group, Inc., Research Division - Equity Analyst*

Okay. That's helpful. And then my follow-up is really -- any comments on the M&A pipeline and opportunities to further grow inorganically? And especially with tax reform potentially on the agenda, maybe that gives an impetus for some of the family-owned or private companies to make some decisions there. But any comments you have on that front and scope for anything on the larger side of the M&A front?

James P. Zallie - *Ingredion Incorporated - President, CEO & Director*

Well, I would just highlight that we've been opportunistic with M&A in relationship to the acquisition of certainly PureCircle. And then the Verdient announcement that we're making on this call and being able to acquire 100% of Verdient, we're pleased with. And again, all of our M&A focus is around enhancing the value propositions for the 5 growth platforms. So I think you can expect us -- you can expect to see that any announcement that we would make would be to support those 5 growth platforms for specialties, primarily in the bolt-on area as we go forward and that whatever we were to buy would enhance shareholder value creation.

Operator

That concludes today's question-and-answer session. I'd like to turn the call back to Jim Zallie for closing remarks.

James D. Gray - *Ingredion Incorporated - Executive VP & CFO*

Okay. Just -- let me just end this real quick. We do understand that there were some technical difficulties on the call. So we apologize for that. And we're obviously going to look into whether it was the transmission lines at this point, but we'll try and capture it all in the transcript. Jim?

James P. Zallie - *Ingredion Incorporated - President, CEO & Director*

All right. That concludes the comments. I just wanted to thank everybody for joining us today. We look forward to continuing our discussion later this month at one of the upcoming conferences. And until we speak again, I just want to wish everyone a safe and -- safe holiday season. Thanks so much.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.
